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FROM THE EDITOR

The best laid plans don't always work out as planned. We had hoped to publish the second issue of this Journal as the last issue of 1983. Instead, it appears at the end of the first quarter of 1984 and a little late at that. We will try to publish three more issues this year, however.

In this issue we conclude the translation of Platbārzdīs' "Review of the Latvian Monetary System". Also you will find a new column starting with this issue, the Member's Bourse. All members are invited to participate in this column. There is, of course, no cost to the members. Next issue will inaugurate a column entitled, Auction Spotlight which will give recent auction prices for the rarer Latvian numismatic items.

So much for our plans. What would you like us to do? Can you do a short article for the Journal? Do you want book reviews? Keep us informed of your desires and we'll have a better organization, one that's in tune with it's members. As we go to press our organization has 44 members, located in 20 states of the U.S. and in five countries outside the U.S. So, until next time, Uz redzēšanos (So long)

LNS FIRST MAIL BID SALE

We have received on consignment from the estate of a collector of Baltic coins many nice Latvian coins which will be offered in a mail bid sale with the next issue of the Journal. Among the coins to be sold are two complete date sets of modern Latvian coins (25 coins per set), 5 medieval coins of Kurland, about 30 medieval coins of Riga (of the Livonian order and under Polish and Swedish rule), and two coins of Wenden. Closing date will be about August 10. So watch for this mail bid listing arriving with your next Journal.

A REVIEW OF THE LATVIAN MONETARY SYSTEM

1918 - 1941

(Continued from JLNS issue number 1)

Thus, in Liepāja (Libau) on March 22, 1919 was born the idea of a Latvian ruble and on March 27 of the same year these exchange values were established:

1 Latvian ruble = 1 "ost" ruble = 2 German marks = 1.5 tsarist rubles.

Foreign currencies continued to be accepted as legal payment media. Initially, citizens had more faith in the tsarist and the "ost" currencies than in the new Latvian ruble. The police often had to force merchants, tradesmen and farmers to accept the new money from government workers and soldiers who were the first recipients of it. The Latvian ruble was not even considered an adequate means of payment by the department of the treasury, the issuer of the notes. When companies and financial institutions bought foreign currencies at the treasury's foreign exchange branch, only tsarist and "ost" rubles were accepted in payment for these transactions.

Among the old tsarist currency then in circulation were quite a few notes which were very worn and some even had portions of them missing. For this reason, often sharp disputes arose - the payer considered these notes as being of full value, while the receiver considered them worthless. The provisional government was forced to issue the following special order on July 25, 1919. "Tsarist paper notes shall be considered a legal means of payment in Latvia at all governmental and public offices and also have to be accepted in transactions among private individuals if they meet the following criteria:

- a) If the color is clearly discernible and if the text is fully readable,
- b) the signatures and serial numbers are clearly readable and are not mutilated,
- c) if all the missing portions together do not exceed an area equal to 1/8 of the total area of the note, or if the remaining area is at

least 7/8 of the original area." Wanting to raise the value of the Latvian ruble, the secretary of the treasury, on August 7, 1919 decreed that 1 Latvian ruble = 1 "ost" ruble = 2 German marks = 2 tsarist rubles. This ruling created an unpleasant situation with Estonia.

A. Aizsilnieks¹ describes it: "In northern Vidzeme which was controlled mostly by the Estonian government and its army, among the currencies in circulation there were also Estonian marks. After the battles at Cēsis these marks had also reached Riga, where they were exchanged only by the treasury and by private money changers. After the above mentioned decree of August 7, the chairman of the county of Valmiera published the following order: I hereby announce that starting with August 7, 1919 all payments are to be made according to the following schedule: 1 Latvian ruble = 1 "ost" ruble = 2 German marks = 2 tsarist rubles. The Estonian mark is not considered a legal payment medium and neither are the city notes. In reply to this order the following mandate was issued by the commander of the third Estonian division in Valka on September 16, 1919: " I order Estonian currency to be accepted as a legal means of payment in all financial transactions at all places in northern Latvia, to the north of the Estonian army's strategic line. Thus, until the departure of the Estonian troops from northern Latvia, there existed these two contradictory orders which caused a great deal of frustration. There was the impression that the Latvian government valued tsarist currency more than Estonian currency."

Delayed by the coup d'etat of A. Niedra, the provisional government of K. Ulmanis was able to issue only 26,000 25 ruble notes for a total value of 650,000 rubles. Adding the 830,000 rubles (in one and 25 ruble notes) issued by the A. Niedra government, the total issue in Liepāja was in the amount of 1,680,000 rubles.

¹Aizsilnieks, A., Latvijas Saimniecības Vēsture (Latvian Economic History) 1914 - 1945, p.115.

By August 1, 1919, the issue had risen to 3.3 million rubles and by September 1, 1919, a total of 8.6 million rubles worth of notes had entered circulation. When the government in Riga signed a lease on the A. Grossett graphics establishment, currency issue increased dramatically. The following authorizations for new issues were approved:

August 25, 1919	-	75 million rubles
November 7, 1919	-	100 million rubles
March 18, 1920	-	200 million rubles
June 3, 1920	-	500 million rubles
December 16, 1920	-	520 million rubles
March 18, 1921	-	1100 million rubles

Thus, on six occasions, in less than two years time, almost 2500 million ruble issues were authorized. The actual amount issued reached a maximum of 2469 million rubles on March 21, 1921. The government had projected the use of these notes not only to cover current operating expenses, but had specified certain sums to be invested in specific projects. Thus, the law of March 18, 1920, allocated 50 million rubles to these specific projects. As the currency was returned to the treasury, but no later than April 1, 1921, these 50 million rubles were to be taken out of circulation. The currency emitted by the law of June 3, 1920 was affected to an even greater extent, because from this issue 437 million rubles were allocated to the stock of working capital. This issue had to be retired from circulation in ten years time, at a rate of about 44 million rubles annually. The purpose behind these redemption laws was to inspire confidence in the Latvian ruble, which, due to its large issue and limited availability of goods, had rapidly lost its purchasing power by ever increasing prices. All later laws dealing with the printing of money did not mention the redemption requirement.

In passing we mention a local currency issue - the debt notes issued by the city of Riga in 1919.

Due to the Russian Civil War, the German revolution and the inflation that followed it, the values of foreign currencies fell continually. Also due to the large quanti-

ties of Latvian rubles issued, the necessity for having to use foreign currencies was reduced. On March 18, 1920, the Latvian ruble was pronounced as the only legal payment medium. Tsarist rubles were exchanged until April 20, at the treasury, at a rate of 50 Latvian kopecks per ruble.

The law dealing with the Latvian state treasury notes (kases zīmes) specified that the notes are "backed with all of the State's assets and income", but no mention was made as to what actual responsibility the State assumed toward the holders of these notes. Due to inflation, the value of the Latvian ruble declined rapidly. For example, in January, 1920, the British pound sterling was equal to 230 rubles while in December of the same year, it was equal to 720 rubles. A year later, in December of 1921 the pound was equal to 1010 rubles. Prices, of course, had also risen five-fold in two years' time.

To prevent the Latvian ruble from becoming completely worthless, it had to be somehow stabilized. The procedures to implement this stabilization formed slowly. State ordered forestry work and its monopoly of the linen industry, had formed large commodity stockpiles. In the spring of 1921, the government started to export these commodities. Linen especially, were quite valuable in those days, with a ton bringing between 250 and 300 pounds sterling. Thus, the treasury experienced a steady influx of sound foreign currencies. The knowledgeable and strict secretary of the treasury, Mr. Ringolds Kalnings managed to balance the state budget, and thereafter no further issues of new notes were necessary. The situation was favorable for a definition of the value of the Latvian ruble. Upon a recommendation from the treasury, the constituent assembly on July 14, 1921 permitted all contracts to be made in an imaginary monetary unit - the gold franc (1 gold franc = 0.2903226 grams of pure gold). This was to be a temporary measure until the monetary reform could be completed. (The gold franc is based on the Swiss franc. Ed.)

All contracts established in this system were to be consummated in Latvian rubles based on the exchange rates which were then current. (The gold franc to Latvian ruble exchange rates had already been published earlier: on May 27, 1921, 1 franc = 87.5 rubles; on June 1, 94 rubles and on July 1, 97 rubles). Taxes were also assessed in gold francs and they were payable in a rounded off exchange rate of 100 rubles per gold franc. The finance ministry even issued "document stamps" in 1 and 3 franc values; thus, on this instance the imaginary monetary unit became a real monetary unit, but without any legal authority. Loans from the treasury (state) to rebuild war-torn industries were also calculated in gold francs and, therefore, repayment of considerable sums was guaranteed in a stable unit of account. These actions stopped inflation, stabilized the monetary system, and the value of the Latvian ruble, which had experienced a continual decline, actually started to rise. By the beginning of 1922 the value of the ruble had risen to approximately 50 rubles per franc.

The Latvian ruble period ended on August 3, 1922, with the passage of the monetary reform act. The new monetary unit was given the name "lats" (singular) or lati (plural), abbreviated as Ls or ls. This unit was based on the gold standard, namely, Ls.1 = 0.2903226 g of pure gold and it was further subdivided into 100 santimi (plural of santims). Many other names had been suggested for the monetary unit before the lats was chosen. The treasury department, for example, on many occasions in 1921, had suggested that the new monetary unit should be the franc.

The circulating Latvian rubles had a value of 50 rubles per lat. They remained in circulation until they could be exchanged for the new notes printed to the lat standard.

A law passed on September 7, 1922, created the Bank of Latvia (Latvijas Banka), with authority to

issue only banknotes. The Bank was created as a government agency and was started with government provided capital of Ls. 10 million. The Bank of Latvia took over the operations of the State Credit Bank (Valsts Kreditbanka). The State Credit Bank had been created on August 18, 1921 from the former State Savings Bank (Valsts Krājkaše) which had been founded on April 1, 1919. On November 1, 1922, these two former institutions ceased their operations, which were at that time taken over by the new Bank of Latvia.

The currency laws of August 3, 1922, also provided for the minting of coins. The authority to mint coins was retained by the state and the responsibility to oversee their production was assigned to the President's Cabinet. The striking of gold coins was authorized in the Ls. 10 and Ls. 20 denominations. Their weight was to be 3.225805 g and 6.45161g respectively of 900/1000 fine gold. The treasury, however, chose not to mint the gold coins. The main reason for this decision was the creation of the Bank of Latvia which had made it possible to do without gold coins and still maintain an adequate supply of stable currency. Also, the treasury realized, that to issue the gold coins in limited quantities as was desired by the Cabinet, one had to take into account the possible collecting desires of the citizens. Thus, under these circumstances, even if minted, few gold coins would have seen circulation.

The law of August 31, 1922, authorized the striking of nickel and bronze coins. These were authorized to be struck in quantities of up to Ls. 10 per inhabitant. (The population of Latvia was about 1.8 million in those days. Ed.) The minting of silver coins was authorized on the following dates: Ls. 1 on October 2, 1923, Ls. 2 on March 24, 1925 and Ls. 5 on March 12, 1929. Silver coins could be issued in quantities of up to Ls. 30 per inhabitant. The government made a profit on the silver coins

for the state (seignorage) while the bronze and nickel coins were made at a loss, i.e. they cost more than their face value to mint.

On November 24, 1924 the Parliament passed a law to continue the legal tender status of the state treasury notes (Valsts Kases Zīmes). All previously issued notes, denominated in rubles, were to be gradually exchanged for the new state treasury notes in 5, 10 and 20 Lati denominations. The total issue of the new notes was not permitted to exceed Ls 40 million, a rough equivalent of the value of all the ruble notes then in circulation. The backing for these notes continued on as before, but it was worded differently on the notes: "State Treasury Notes are backed to their full nominal value."

The Bank of Latvia had the privilege to issue bank-notes in 10, 20, 25, 50, 100 and 500 Lati ^{depending upon} values ^{at} its reserves which were required for backing the currency. This requirement was initially 50% (later changed to 30%) on the first 100 million lati, in gold or a recognized strong currency and the balance in secure short term bonds. Issues over 100 million lati initially required a backing of 75% (later changed to 50%) in gold or strong currencies.

The Bank issued Ls. 10 notes only once, in 1922 and the Ls. 20 notes twice (in 1924 and 1925). Later these values were issued only by the state treasury.

On the Bank of Latvia notes were printed their proper gold exchange clauses. For example, on the 1922 Ls. 10 note, This note will be redeemed by the Bank of Latvia for 2. 903226 grams of gold.

The requirement to exchange currency for gold was discontinued on October 8, 1931. Latvia went off the gold standard on September 28, 1936, and the Lats was defined as being equal to 0.0396187 pounds sterling.

Starting in 1938, the gold exchange clause was dropped from all currency issues. Starting on September 26, 1939, when the value of the British pound, due to the war, started to drop, the Bank of Latvia was authorized to determine the exchange rate of the lats itself, without reference to the pound. In order to somewhat curb the purchasing power of the citizens, some currency controls were instituted. For example, only a certain, fixed amount could be withdrawn each month from savings accounts. Watches and other jewelry items could be purchased in limited quantities, and then only with special permits.

The value of the lats had hardly dropped, even by the time of the Soviet occupation of the country. The exchange rates on June 15, 1940 were: \$1 = Ls. 5.40, SFr.100 = Ls.121.25, SKr.100 = Ls.128.50 and £ 1 = Ls.20.35. With the exception of the British pound which had dropped in value by 19.5%, compared to other currencies, the lat had preserved its value amazingly well.

On July 23, 1940, the Soviet installed puppet government declared: " The current stability of the lat will continue to be maintained. The lat will remain the official payment medium. If, in the process of economic reorganization, it should become necessary to change the currency system, these changes will be instituted in such a way as to guarantee the holders of the lati notes a fully equivalent exchange in any new monetary system." The people, of course, did not believe this declaration and tried to use all available resources to purchase any kind of merchandise. Contrary to the above quoted declaration, the value of the lats started to drop. The devaluation was performed in multiple steps, each time by raising all prices and wages. Also, due to this devaluation the price of silver had increased to the point where the intrinsic value of the silver coins exceeded their face value, and the people started to hoard them.

The occupants tried to get all the silver coins to flow back to the banks, but without any success.

On November 25, 1940, the Soviet ruble was made legal tender alongside the lat, with a 1 to 1 ratio (Ls.1 = 1 ruble). On March 25, 1941, all private bank accounts over Ls.1000 were nationalized (confiscated), and on the same day, without prior warning the lat was completely demonetized and became worthless as a medium of exchange.

The law annulling the Latvian medium of payment was announced by wire on March 25 at 1:05 P.M., to the effect that, "the currency of the former Latvian state is hereby discontinued. Acceptance of all types of payments in lati and santimi is hereby suspended, effective immediately. All types of transactions are to be conducted only in soviet currency. Upon receipt of this wire you are ordered to compile a listing of all Latvian currency on hand and to turn it in to the state bank." (loosely translated. Ed.)

The order to nationalize all deposits in excess of 1000 lati (or 1000 rubles) was announced by letter to all of the nations savings institutions. This announcement was not to be published anywhere but was to be explained to the affected citizens when they visited their savings institution or bank.

This finishes a summary of the Latvian Monetary System as written by A. Platbārzdīs in the introduction to his book, "Latvijas Naudas" (Latvian Currencies).

Note: The first part of this article appeared in issue number 1 of this Journal. The article was translated by the editor.

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MEMBERS' BOURSE

Let us know what you want to buy or sell. This is your column. At least 50 other persons in our field will see your message.

I WANT TO BUY Latvian, Estonian and Lithuanian paper money, medals, tokens, stocks, bonds (local or national issues), military decorations, medieval coins, etc.

George M. Daru
38 N. Walnut St.
Wilkes-Barre, PA 18702

I WANT TO BUY Latvian, Lithuanian and Estonian military and police insigniae. I'm looking for cap and collar badges, etc. but not medals. Also I need books or magazines illustrating or describing these badges. I am even interested in photo-stats of such articles if you cannot bear to part with the original publication.

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